Fiscal Note

Fiscal Services Division

Description

House File 484 restricts the Treasurer of State, the State Board of Regents, the Iowa Public Employees' Retirement System (IPERS), the Public Safety Peace Officers' Retirement System (PORS), the Statewide Fire and Police Retirement System (411 System), and the Judicial Retirement System from directly investing in certain companies with active business operations in Iran. The Bill encourages the use of commingled funds (indirect holdings) that do not invest in scrutinized companies. The Bill requires each public fund to develop and maintain a list of scrutinized companies by July 1, 2011. An annual report to the General Assembly is required on October 1, 2012, and each October 1 thereafter.

Background

According to the **Jewish Council for Public Affairs**, as of August 2010, 16 states (and the District of Columbia) have enacted legislation regarding Iran divestment policies and six States have administratively adopted Iran divestment policies. According to the National Center for State Legislatures (NCSL), from 2007 through November 2010, 11 States were identified as enacting legislation related to divestment from Iran; however, due to State self-reporting the last action taken as of a certain point in time, the NCSL list may be incomplete. (**2007/2008**, **2009**, **2010**)

House File 484 encourages, but does not require, public funds to utilize commingled funds that do not invest in scrutinized companies, if such products are available and if it is consistent with prudent investing standards. This may result in additional trading costs and higher maintenance fees. The investment boards or trustees for each of the respective funds will make that determination. For example, IPERS has approximately $1.3 billion of assets in three commingled funds. The estimated trading costs and management fees from customizing the funds so they could be screened to avoid investments in companies prohibited under the proposed legislation is approximately $1.5 million. The Board of Regents estimate is approximately $580,000.

Assumptions

- Using a list compiled for similar purposes by Maryland State Retirement and Pension System as of December 30, 2010, IPERS has identified three direct holdings in the IPERS portfolio that would be considered prohibited companies with a total market value of $11.9 million. This amount represented 0.06% (six one-hundredths of one percent) of the total portfolio as of September 30, 2010. The estimated trading costs to divest of these direct holdings are approximately $8,000.
- IPERS estimates the cost to purchase the research services of a firm that specializes in determining which companies should be scrutinized per the criteria established in the legislation is approximately $25,000 per year.
- Using a report and list complied for similar purposes by the Florida State Board of Administration, as of February 22, 2011, the Board of Regents found no direct holdings in their portfolio that would be considered prohibited companies.

- The Board of Regents estimated the cost to purchase the research services of a firm that specializes in determining which companies should be scrutinized is approximately $25,000 per year.
- Using the Florida State Board of Administration (SBA) Scrutinized Companies List, the Municipal Fire and Police Retirement System (411 System) estimates a need to sell investments with a total market value of $3.5 million to immediately divest from prohibited companies. Such divestment does incur transaction costs and may have adverse market opportunity costs. The estimated internal administrative costs range from $5,300 to $10,000. In addition, the 411 System estimates a cost of up to $25,000 to purchase the research services of a firm that specializes in determining which companies should be scrutinized.
- The PORS does not have any direct international exposure to Iranian companies.
- The Judicial Retirement System does not have any direct international exposure to Iranian companies.
- In identifying scrutinized companies, a public fund may review and rely on publicly available information, if viewed to be in the best judgment of the public fund. Any publicly provided service would need to be reviewed to verify the companies being reported meet the requirements of **HF 484**.

Fiscal Impact

The loss from future investments cannot be determined due to a lack of data.

The following is the fiscal impact related to currently invested funds:

- **IPERS** – The fiscal impact to IPERS is an estimated additional cost of up to $33,000 in FY 2012 and up to $25,000 in FY 2013. The costs, if any, will be paid from the IPERS Investment Fund.
- **Judicial Retirement Fund** – No impact.
- **Peace Officers Retirement (POR) Fund** – No impact.
- **Municipal Fire and Police Retirement System (411 System)** – The fiscal impact to the 411 System is an estimated additional cost of up to $33,000 in FY 2012 and up to $25,000 in FY 2013. The costs, if any, will be paid from the Municipal Fire and Police Retirement System Fund.
- **Board of Regents** – The fiscal impact to the Board of Regents will vary from university to university and is an estimated additional cost of up to $25,000 in FY 2012 and up to $25,000 in FY 2013. The costs, if any, will be paid from funds available within the budget of the Board of Regents.

Sources

Iowa Public Employees Retirement System (IPERS)
State Treasurer's Office
Board of Regents
Municipal Fire and Police Retirement System (411 System)

/s/ Holly M. Lyons

March 28, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.